



**COUNTY OF LOS ANGELES  
TREASURER AND TAX COLLECTOR**


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**MARK J. SALADINO**  
TREASURER AND TAX COLLECTOR

June 10, 2002

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino  
Treasurer and Tax Collector 

SUBJECT: **TAX AND REVENUE ANTICIPATION NOTES RATING REVIEW**

We are pleased to advise you that our short-term ratings have been confirmed at the highest level by all three rating agencies: F-1+ by Fitch IBCA; MIG-1 by Moody's Investor Service; and SP-1+ by Standard & Poor's. Similar to last year, the rating agencies cite the County's strong cashflow, sound note repayment structure and the availability of substantial borrowable resources to support the rating.

While there were no changes to our long-term ratings at this time, Fitch has changed its outlook for the County from "positive" to "stable". You might recall that Moody's placed nearly all counties on a "negative" outlook earlier this year. While they continue to recognize the financial progress your Board has made over the last several years, these actions reflect their concern over the pressures to reorganize the health system coupled with the State's severe fiscal problems. A copy of the press releases from Fitch IBCA is attached for your information and we will forward copies of the other reports when they become available.

The notes are scheduled to be sold June 12<sup>th</sup> and I will forward the results of the sale when it is completed. Please call me if you have any questions regarding this information or your staff may contact Deborah Lindholm of my office at 974-7175.

MJS:DL  
dtl:trans:03rating memo to bos  
Attachment (1)

c: Executive Officer, Board of Supervisors  
Chief Administrative Office  
Auditor-Controller  
County Counsel

Fitch  
One State Street Plaza  
New York, NY 10004  
(212) 908-0810  
[www.fitchratings.com](http://www.fitchratings.com)

Fitch Rates Los Angeles County, California TRANS 'F1+'

Fitch Ratings-New York-June 10, 2002: Los Angeles County, CA's \$650,000,000 2002-2003 tax and revenue anticipation notes, series A are rated 'F1+' by Fitch. The notes will be sold through negotiation by a syndicate led by Banc of America Securities LLC on or about June 11. The notes will be dated July 1, 2002 and mature June 30, 2003.

Fitch's highest rating for short-term debt reflects the sound note repayment structure, strong coverage of all note repayment set-asides, and the availability of substantial borrowable resources throughout the fiscal year. The repayment deposit structure sets aside 100% of principal and interest two months in advance of note maturity. The county's long-term credit quality also is a rating factor, marked by relative economic stability and satisfactory year-end reserves, although financial operations remain narrowly balanced and fiscal pressures continue. The long-term credit outlook is revised to stable from positive, reflecting the potential for financial imbalance given the county's challenge in reforming its financially draining health care system and the state's sizable budget deficit.

The notes are secured by a first lien on unrestricted revenue in fiscal 2003. Pledged revenue is projected to total \$4.33 billion for fiscal 2003, covering note principal and interest 6.5 times (x). Funds for repay will be set-aside based on an aggressive schedule beginning in December 2002. By Jan. 31, 2003 more than one-half of the estimated principal and interest due will be impounded; the full amount will be set-aside by April 30. The projected cash flow covers all five set-asides well, ranging from 3.0x-8.4x. Also, the county has a substantial pool of resources available for the intrafund loans, with month-end balances in these funds ranging from \$645 million-\$2.5 billion over the last three years. However, the cash flow projects ending the year with a small \$195.5 million, the lowest such expectation in several years. Historically the county's actual ending balance has been higher than original forecasts.

The projected general fund cash flow is based on Los Angeles County's proposed fiscal 2003 budget, which is under review by the Board of Supervisors. The budget is the county's first in four years beginning with a projected operating deficit. The \$57 million fiscal imbalance will be covered by accumulated reserves. While the projected fund balance reduction is minimal, adhering to the budget's austere spending plan will require strong fiscal discipline. Some spending reductions are unspecified at this point, and will be difficult to identify and implement. Actions under consideration to reduce health care system spending are severe, and likely will encounter strong political opposition. Also, spending reductions are needed in the sheriff's department, where spending beyond budgeted amounts has been common.

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Los Angeles County has made significant progress toward long-term financial stability as evidenced by consecutive operating surpluses and a sound year-end general fund balance. Nonetheless, the county continues to face challenges in bringing ongoing spending in line with recurring revenue. Of particular concern is the county's health department and hospitals. The county's federal Medicaid demonstration project, also known as the 1115 waiver, was extended, acknowledging progress in converting inpatient hospital care to outpatient services. The extension continues to provide additional federal funds, but reduces the amount each year. Also, possible county actions under discussion to reduce health care spending could result in a waiver violation and further reduced federal funds.

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Media Relations: Matt Burkhard 1-212-908-0540, New York.